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SUBJ: Canada-EU trade proposal may rival scope of NAFTA...or not.

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11. (SBU) Summary: Canada and the European Union will review a joint study on the benefits of removing mutual trade barriers at the October 17 Canada-EU Summit in Montreal. While senior Canadian trade officials have publicly touted the benefits of a potential Free Trade Agreement (FTA) - and press reports suggest arriving at such a deal might be a mere formality - the EU has been more cautious, suggesting that the hard work is yet to commence. Closer trade ties to Europe have often been among Canadians' favorite responses to anxiety about U.S. economic influence here, which perhaps helps explain the lofty hopes expressed by Canadian officials so far. End summary

12. (SBU) For several years now, Canada has expressed interest in a wider FTA-type agreement with the European Union (EU). At the Canada-EU Summit in June 2007, Canada and the EU agreed to undertake a Joint Study to examine the existing barriers - especially non-tariff barriers - to the flow of goods, services and capital between the EU and Canada, and to estimate the potential benefits of removing such barriers. The results of that Joint Study are expected to be released between October 14 (voting day in the Canadian federal election campaign) and October 17 (the scheduled date of the 2008 Canada-EU Summit). We understand that the EU wants to send a clear signal at the summit that it wants closer economic ties with Canada and that the two parties should start examining in depth the elements of - and possible obstacles to - a comprehensive trade and investment Agreement. But the EU also acknowledges that engagement in a new negotiation will depend on a challenge-filled preparatory phase to address issues which have been controversial in the past, such as the protection of geographical indications of European products or the commitment of the Canadian Provinces to allow Europeans access to their procurement activities.

13. (SBU) Given the proximity of the dates for Canada's federal election and the Canada-EU Summit, we asked our interlocutors to gauge the likelihood that the Summit could be postponed. We were told that postponement is unlikely since Canada is hosting the twelfth "Sommet de la Francophonie" in Quebec City from October 17 - 19, which French President Sarkozy will attend (along with the heads of government and state from 55 francophone nations). Also, we understand that the Czech Republic, which assumes the EU Presidency from France in January 2009, is skeptical of the value of an EU-Canada FTA. Therefore, if negotiations are to receive a timely green-light, it would have to happen at this Canada-EU Summit.

14. (SBU) In comments reported on September 19 in the Canadian press, Canada's Deputy Minister of International Trade, Marie-Lucie Morin, indicated that the potential FTA would be broad and deep and could even lead even to a labor mobility pact and liberalization of the bilateral investment regime. We have heard from several EU

sources, however, that the EU is somewhat more cautious given the failed negotiations during 2005 - 2006 of the EU-Canada Trade and Investment Enhancement Agreement. We have heard also that there are mixed feelings among a number of EU members states, not just the Czechs, about the value of this effort.

¶5. (SBU) Comment: The proposed Canada-EU FTA is a safer political sell in Canada than most FTA proposals. Closer trade ties to Europe have often been Canadians' favorite response to anxiety about U.S. economic influence here, which may help explain the lofty hopes expressed by Canadian officials so far. End comment.

The Background

¶6. (U) Canada is the EU's 11th most important trade partner, accounting for 1.8 percent of total EU external trade. For Canada, the EU is the second most important trade partner, after the United States, with a 9.6 percent share of Canada's total external trade. The value of EU-Canada trade in goods rose to about USD\$70 billion in 2007, with high value-added products such as machinery, transport equipment and chemicals making up around half of the EU's exports to Canada and 32 percent of the EU's imports from Canada. An additional 15 percent of bilateral trade consists of agricultural- or energy-related products. Trade in services, particularly travel and transportation, is a growing area in the trade relationship. Investment, too, is a particularly strong feature, with the EU ranking as the second largest investor in Canada, and Canada as the third investor in the EU. Figures below are conversion of Euro values to US dollar at current market rates.

Trade in goods --

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EU exports of goods to Canada in 2007: US\$37 billion
EU imports of goods from Canada in 2007: US\$33 billion

(EU Canada goods trade is dominated by high-value goods such as machinery, transport equipment and chemicals.)

Trade in services --

EU exports of services to Canada in 2007: US\$14 billion
EU imports of services exports from Canada in 2007: US\$11 billion

Foreign Direct Investment -

EU inward investment in Canada in 2006: US\$183 billion
Canadian inward investment in the EU in 2006: US\$121 billion

¶7. (U) In 1976, Canada and the EU signed the first-ever Framework Agreement for Commercial and Economic Cooperation between the EU and an industrialized country. For over 30 years this Framework Agreement has provided the foundation and the structure for the management and development of the EU-Canada relationship in an increasing number of fields, including trade. The 1990 Transatlantic Declaration built on this confirming the goal shared by Canada and the EU of strengthening the multilateral trading system. Canada and the EU began negotiations on a Transatlantic Aviation Agreement in ¶2007.

¶8. (U) The EU and Canada meet in annual EU-Canada summits, at which the issues of greatest importance to the relationship, including trade issues, are discussed. In addition, senior European Commission and Canadian Federal Government officials, in the presence of representatives of the Canadian provinces and of the EU Member States, meet once a year in the Joint Cooperation Committee (JCC) to review the full range of issues relating to EU-Canada economic and trade relations.

Wilkins